

**TESTIMONY BY ROBERT L. JOHNSON
CHAIRMAN AND CEO, DC AIR**

**BEFORE THE
COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION**

FEBRUARY 1, 2001

Mr. Chairman, Senator Hollings and Members of the Committee, from the day that we announced the creation of DC Air, my vision for this groundbreaking company has remained intact:

- To build on the well established service from 44 communities throughout the mid-atlantic region to Washington's National Airport that approximately 3 million passengers a year have come to rely on;
- To provide safe reliable, high quality service, at competitive prices to customers and communities in the region we will serve;
- To compete vigorously on price and service in the communities we serve;
- To facilitate the growth and economic development that accompanies air service; and
- To develop and maintain an airline that the Washington community will be proud to call its hometown carrier.

In addition, as Chairman, Chief Executive Officer and majority owner of DC Air, I pledged from our very first day to create, own, and operate this new airline -- America's first minority-owned air carrier in over 30 years -- because in my heart I believed it would be good for consumers, ensure competitiveness in air travel, and do right by the 44 communities we will serve.

Mr. Chairman, I am proud and happy to report today that we have made a number of significant strides forward in realizing the full scope of this vision.

As you are well aware, from the first discussions of DC Air, critics speculated that its proposed agreements with United Airlines for transition period resources, however brief and arms-length these may have been, might have compromised our goal of establishing DC Air as a viable, independent airline. This has all changed with our announced partnership with American Airlines. American's recently announced agreement to invest in DC Air and to provide these transition resources proves that these theories could not be further from the truth.

Make no mistake about it, the resources that American Airlines is bringing to Washington D.C. -- an experienced staff, capital, and infrastructure -- as it grows its operations here and throughout the Eastern United States will go a long way toward making DC Air a powerful, competitive, and independent airline on day one of our operations.

By far the most important outcome of the DC Air-American Airlines partnership is the benefits it will afford our customers. Of prime importance will be the consumer benefits associated with the 20-year marketing alliance between our two companies. This will allow passengers traveling on DC Air to earn American AAdvantage frequent flyer miles which they can redeem on DC Air, or anywhere in American's national network or its global system. Thus, passengers flying on DC Air will reap the benefits of what many consider to be the premium frequent flyer program in the industry. In addition, DC Air passengers may enroll in American's airport lounge program, accessing facilities in National Airport and worldwide.

Through the alliance with American, DC Air's customers will also have access to a vast network of new destinations. For example, our passengers will be able to fly from Richmond to National on DC Air, and then from National to New York or Boston on American Airlines' Shuttle service. Additionally, DC Air passengers will have direct access to the rest of American's network, which includes service to Chicago, Dallas and Miami. And, should American's proposed acquisition of TWA be consummated, passengers could also take advantage of convenient connections over Reagan National to St. Louis and Los Angeles.

The alliance with American will expand DC Air's reach from point-to-point service to and from Washington and connections up and down the East Coast, into an established network that spans the globe. In turn, American Airlines will get a strategic partner with a significant network in the east, operating out of Reagan National Airport, to complement its planned growth within the east. By adding its relationship with DC Air to its internal growth and announced acquisitions, American will become a major competitor for North-South traffic flows along the Eastern U.S.

While the benefits to passengers bode well for the success of DC Air, many of the operational aspects of the DC Air-American alliance will go a long way toward addressing of the broader public policy concerns raised about DC Air's viability as a stand-alone entity and our ability to enhance the competitive landscape on the East Coast.

As you may recall, our original plan for DC Air had been to manage a rapid transition into a network of 44 cities using 37 aircraft on our first day of operations. We had arms-length arrangements with United Airlines to provide 10 wet-leased jet aircraft, as well as services including ground handling and other items, to ensure that DC Air had full access to all needed services on "day one" of operations.

Still, some observers of the process appeared concerned that any form of ongoing relationship with United Airlines, no matter what it was, somehow called into question DC Air's independence – in part, because United would be one of our major competitors in this region.

In response to those concerns, we at DC Air accelerated the process of entering into relationships with carriers other than United to provide these services. We had received expressions of interest from a number of carriers regarding a partnership and entered into very detailed negotiations with several. While we could have chosen any of several different paths, I

had the opportunity at a critical point to meet and get to know Don Carty, the Chairman of AMR, American's parent company. It became clear to me in that meeting, and through our subsequent discussions, that not only were the economic terms of the arrangement favorable to DC Air, and the benefits to our passengers outstanding, but also that Don Carty and the American team truly understand what DC Air is all about and that they are looking forward to being our partner.

First and foremost, under the alliance with American, I am the Chairman of DC Air and under my leadership DC Air will be an independent company. American has purchased a minority equity stake, 49%, of DC Air, ensuring that the airline will follow the vision we previously have so clearly set out for DC Air.

Under this alliance, American Airlines has stepped in to provide between 11 and 14 jet aircraft that will clearly help DC Air provide quality service to more destinations each day and has agreed to provide ground handling and other services to DC Air during its transition period.

Although I believe most of you view our independence from United in a positive light, I want to underscore to you that our alliance with American will only ensure that we will be able to compete aggressively in both service and fares with other airlines. United will no longer help to provide transition services. United is our rival, our foe, our adversary. And, we will face our competitors, including United, with the support of American Airlines behind us as we go into battle.

I have received some queries about the cost structure of DC Air under the arrangement with American. American will benefit from the success of DC Air through its equity investment, and is providing services at very competitive rates to DC Air. In addition, American has significant economies of scale in various areas that can be passed along beneficially to DC Air. Therefore, our costs will be fully competitive and our vision of competing aggressively in both service and fares is not only intact, but enhanced.

The American Airlines-DC Air alliance will ensure vibrant competition throughout the Washington area. Without this alliance, the metropolitan area would have one primary traditional carrier -- United Airlines -- offering nonstop service to a variety of destinations and connections to worldwide destinations from its hub at Dulles International Airport. Of course, other airlines, notably Air Tran, Delta Air Lines and Southwest Airlines, would continue to serve the metropolitan area, but each of these airlines offers a more limited scope of nonstop destinations to Washington passengers. Instead, this alliance will bring into this region a significant new competitor, DC Air, with the support of a traditional carrier, American, which in combination will become the largest presence at Ronald Reagan Washington National Airport. This will provide for intense competition for both East Coast and worldwide passengers that will keep prices down and help ensure high quality service for area travelers.

And, with the new resources provided by American Airlines, DC Air will have all the resources necessary to be fully operational on "day one," pending the closing of the merger. When it is operational, DC Air will provide competitive air service to 44 communities -- cities that, for the most part, currently enjoy direct access to the Washington area. As the majority owner of DC

Air, I believe it is critical to sustain and enhance the existing US Airways network, which has provided affordable, safe, reliable service to cities in the Northeast for so many years. Nothing in the American agreement changes my long-term commitment to these communities.

When I agreed to build and run DC Air, I strongly believed it would prove to be a strong, independent airline. The new alliance between DC Air and American Airlines brings us closer to achieving the goals I set out when I agreed to build and run DC Air -- to provide high quality, safe, reliable air travel, to help preserve competition in the airline industry, and to make air travel affordable.

Thank you for the opportunity to testify before you today.